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HEARD ON THE STREET

Trump Really Might Weaken the Dollar

Currency intervention hasn't been tried by the U.S. for years, but don't count out an effort by the Trump administration to weaken the dollar



If President Trump wants to intervene, selling dollars against other currencies in a bid to send its value lower, he can.

PHOTO: MICHAEL BROCHSTEIN/ZUMA PRESS

By [Justin Lahart](#)

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The Federal Reserve probably won't cut rates as much as President Trump thinks it should, but he has another tool he can use to stimulate the economy: He can sell the dollar.

Investors should be prepared for the possibility that he just might do it.

When Fed policy makers meet next week, they will likely lower their target range on overnight rates by one-quarter of a percentage point. Given the recent performance of the economy, it isn't clear that is necessary, but Mr. Trump seems to want an even deeper cut, which might weaken the dollar.

On Monday, he was back to criticizing the Fed, tweeting that “our Country is needlessly being forced to pay a MUCH higher interest rate than other countries only because of a

very misguided Federal Reserve.” He then added that it is “very unfair that other countries manipulate their currencies and pump money in!”

It wasn't the first time Mr. Trump has linked monetary policy to the dollar, which over the past five years has risen 25% against a broad, trade-weighted basket of other currencies. Earlier this month, he tweeted that China and Europe are playing a “big currency manipulation game and pumping money into their system in order to compete with USA.” After European Central Bank President Mario Draghi suggested in June that the central bank could roll out fresh stimulus, The Wall Street Journal reported Mr. Trump believed Mr. Draghi was starting a “currency war” with the U.S.

The dollar's strength represents a headwind to the U.S. economy, since it raises the cost of American-made goods abroad while lowering the cost of foreign-made goods in the U.S. It also cuts the value of U.S. multinationals' overseas sales once they are translated into dollars and is part of the reason second-quarter earnings have been weak.

Buck Up

Cumulative change in the value of the U.S. dollar against a broad basket of currencies



Source: Federal Reserve

Mr. Trump's complaints have been loud enough that Wall Street economists and strategists have been putting out notes laying out how Mr. Trump might intervene in the

currency market, even if they believe the probability is that he won't.

If Mr. Trump wants to act, selling dollars against other currencies in a bid to send its value lower, he can. The U.S. Treasury has close to \$75 billion in funds that it could commit to an intervention, according to Goldman Sachs. With the participation of the Fed, that amount could at least double. And the Fed likely would join in, UBS economists note, as it has in past actions even when it disagreed on the merits of currency intervention.

SHARE YOUR THOUGHTS

Do you think President Trump could weaken the dollar? Why or why not? Join the conversation below.

Although intervention probably would be effective, there are reasons not to do it. To begin with, it might not have a lasting effect. The currency market is massive, with trillions of dollars in daily transactions, and there are multiple factors beyond interest rates, including trade flows, relative prices and differing economic trajectories, that determine valuations.

Where interventions have been successful has been in extreme situations, and in coordination with other countries. The last time the U.S. intervened in the currency market was when it joined with Japanese, Canadian, U.K. and European authorities to halt a spike in the value of the yen that threatened to handicap Japan's recovery from the 2011 earthquake and tsunami. If the U.S. intervenes now, it would likely be doing it alone.

But just because intervention might be largely symbolic and would be a break with precedent doesn't mean it won't happen.

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